

# EXHIBIT 122



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# This Day In History

**MARCH | 16**

2008

## Bear Stearns collapses, sold to J.P. Morgan Chase

On March 16, 2008, Bear Stearns, the 85-year-old investment bank, narrowly avoids bankruptcy by its sale to [J.P. Morgan Chase](#) and Co. at the shockingly low price of \$2 per share.

Bear Stearns seemed to be riding high with a stock market capitalization of \$20 billion in early 2007. But its increasing involvement in the hedge-fund business, particularly with risky mortgage-backed securities, paved the way for it to become one of the earliest casualties of the subprime mortgage crisis that led to the [Great Recession](#).

**READ MORE:** [The 2008 Crash: What Happened to All That Money?](#)

## Housing boom goes bust

In the early to mid-2000s, as home prices in the United States rose, lenders began giving mortgages to borrowers whose poor credit would otherwise have prohibited them from obtaining a mortgage.

With the housing market booming, Bear Stearns and other investment banks became heavily involved in selling complex securities based on these subprime mortgages, with little regard for how risky they would turn out to be.

After peaking in mid-2006, housing prices began to decline rapidly, and many of these subprime borrowers began defaulting on their mortgages. Mortgage originators started feeling the effects of the crisis first: New Century Financial, which specialized in subprime mortgages, declared Chapter 11 bankruptcy in April 2007.

In June, Bear Stearns was forced to pay some \$3.2 billion to bail out the High-Grade Structured-Credit Strategies Fund, which specialized in risky investments like collateralized debt obligations (CDOs) and mortgage-backed securities (MBSs).

The following month, the firm revealed that the High-Grade fund and another related hedge fund had lost nearly all of their value due to the steep decline in the subprime mortgage market.

## Bear Stearns collapses

For the fourth quarter of 2007, Bear recorded a loss for the first time in some 80 years, and CEO James Cayne was forced to step down; Alan Schwartz replaced him in January 2008.

Barely two months later, the collapse of Bear Stearns unfolded swiftly over the course of a few days. It began on Tuesday, March 11, when the Federal Reserve announced a \$50 billion lending facility to help struggling financial institutions. That same day, the rating agency Moody's downgraded many of Bear's mortgage-backed securities to B and C levels (or "junk bonds").

Unlike a regular bank, which can use cash from depositors to fund its operations, an investment bank like Bear Stearns often relied on short-term (even overnight) funding deals known as repurchase agreements, or "repos."

In this type of deal, Bear offered bundles of securities to another firm or an investor (such as a hedge fund) in exchange for cash, which it would then use to finance its operations for a brief period of time.

Relying on repos—which all Wall Street investment banks did to some degree—meant that any loss of confidence in a firm's reputation could lead investors to pull crucial funding at any time, putting the firm's future in immediate jeopardy.

Taken together, Moody's downgrade and the Fed's announcement (which was seen as an anticipation of Bear's failure) destroyed investors' confidence in the firm, leading them to pull out their investments and refuse to enter into any more repo agreements.

By Thursday evening, March 13, Bear had less than \$3 billion on hand, not enough to open its doors for business the following day.

## J.P. Morgan Chase cuts a deal

Schwartz called on [J.P. Morgan](#) Chase, which managed the firm's cash, to ask for an emergency loan, and told the president of the New York Federal Reserve, Tim Geithner, that his firm would go bankrupt if the loan didn't come through.

The Fed agreed to provide an emergency loan, through J.P. Morgan, of an unspecified amount to keep Bear afloat. But soon after the [New York](#) Stock Exchange opened on Friday, March 14, Bear's stock price began plummeting.

By Saturday, J.P. Morgan Chase concluded that Bear Stearns was worth only \$236 million. Desperately seeking a solution that would stop Bear's failure from spreading to other over-leveraged banks (such as Merrill Lynch, Lehman Brothers and Citigroup) the Federal Reserve called its first emergency weekend meeting in 30 years.

On Sunday evening, March 16, Bear's board of directors agreed to sell the firm to J.P. Morgan Chase for \$2 per share—a 93 percent discount from Bear's closing stock price on Friday. (Subsequent negotiations pushed the final price up to \$10 per share.) The Fed lent J.P. Morgan Chase up to \$30 billion to make the purchase.

## Harbinger of the Recession

The unexpected downfall of the nation's fifth-largest investment bank, founded in 1923, shocked the financial world and sent global markets tumbling.

As it turned out, Bear Stearns would be only the first in a string of financial firms brought low by the combination of income losses and diminishing confidence in the market.

In September 2008, Bank of America Corp. quickly purchased the struggling Merrill Lynch, while venerable [Lehman Brothers collapsed into bankruptcy](#), a stunning failure that would kick off an international banking crisis and drive the nation into the biggest economic meltdown since the [Great Depression](#).

## Sources

Kate Kelly, [Street Fighters: The Last 72 Hours of Bear Stearns, the Toughest Firm on Wall Street](#) (New York: Portfolio, 2009).

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A Timeline of Bear Stearns' Downfall, [The Motley Fool](#), March 15, 2013.

"How subprime killed Bear Stearns," [CNN](#), March 17, 2008.

Timeline: A dozen key dates in the demise of Bear Stearns, [Reuters](#), March 17, 2008.

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## Citation Information

**Article Title** Bear Stearns collapses, sold to J.P. Morgan Chase

**Author** [History.com Editors](#)

**Website Name** HISTORY

**URL** <https://www.history.com/this-day-in-history/bear-stearns-sold-to-j-p-morgan-chase>

**Date Accessed** June 23, 2023

**Publisher** A&E Television Networks

**Last Updated** March 15, 2021

**Original Published Date** January 19, 2018

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## Also on This Day in History

### MARCH | 16

1972

James Brown performs at Rikers

⚡ ART, LITERATURE AND FILM HISTORY

2003

23-year-old peace activist Rachel Corrie is crushed to death by Israeli bulldozer

⚡ MIDDLE EASTERN HISTORY

1955

NHL star Maurice Richard suspended; riot ensues

⚡ SPORTS

1985

American journalist Terry Anderson kidnapped

⚡ MIDDLE EASTERN HISTORY

1926

First liquid-fueled rocket

⚡ INVENTIONS & SCIENCE

1968

Vietnamese villagers killed by U.S. soldiers in My Lai Massacre

⚡ VIETNAM WAR

1802

U.S. Military Academy established

⚡ 19TH CENTURY

1903

Judge Roy Bean dies

⚡ 19TH CENTURY

**1970**

Motown soul singer Tammi Terrell dies

**⚡ ART, LITERATURE AND FILM HISTORY**

**1850**

"The Scarlet Letter" is published

**⚡ ART, LITERATURE AND FILM HISTORY**

**2005**

Actor Robert Blake acquitted of wife's murder

**⚡ CRIME**

**1881**

18-year-old woman murders her lover

**⚡ CRIME**

**1988**

President Reagan orders troops into Honduras

**⚡ COLD WAR**

**1751**



James Madison, "Father of the Constitution," is born

 **AMERICAN REVOLUTION**

1945

Fighting on Iwo Jima ends

 **WORLD WAR II**

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